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C O N T E N T S

First Part

TROPICAL PRODUCTS MARKET

COCOA

Market trends

The following table shows the price trend for spot cocoa since the beginning of the 1965/66 marketing year (monthly averages for Ghana cocoa).

1965	London (s/cwt)	New York (cts/lb)
October	137/7	17.14
November	147/3	18.52
December	169/8	21.47
1966		
January	179/6	22.63
February	177/4	22.42
March	185/1	23.21
April	201/4	25.17

After their disastrous fall in the summer of 1965, prices recovered very appreciably and rose above the level for the end of 1964 and January 1965.

The principal economic factors that contributed to this recovery in prices were:

(i) The fact that the 1965/66 crop turned out to be very much smaller than the year before: 1 260 000 tons, as against 1 525 000 tons, thus giving a theoretical deficit of 150 000 tons in relation to demand;

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(ii) The substantial increase in world consumption in 1965 and the encouraging forecasts for bean grindings in 1966:

	1964	1965	1966 (forecast)
('000 tons)	1 184	1 330	1 410

(iii) The remarkable advance in imports of beans in most of the leading consumer countries in 1965:

('000 tons)	1964	1965
USA	264	353
Germany	143.4	166.9
Netherlands	106.4	119.3
France	60.1	63.8
EEC	364.1	408.7
United Kingdom	77.2	81.0

Preparation of negotiations for an international cocoa agreement

The Working Party on prices and quotas set up by the 1963 UN Cocoa Conference met twice during the first quarter of 1966. No important results were achieved in New York in January, but at the Geneva meeting in March it was possible to reconcile the different views of producer and consumer countries on several important points; other problems were left in abeyance, but not necessarily because of disagreement between producers and consumers. The twelve States that are members of the Working Party are: six producer countries: Brazil, Cameroon, Ghana, the Ivory Coast, Mexico and Nigeria; and six consumer countries: Germany, France,

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the Netherlands, Switzerland, the United States and the United Kingdom. Many countries, specialized institutions and intergovernmental organizations sent observers to the meetings.

At the beginning of the Geneva meeting, the Secretary-General of UNCTAD, Dr. Raul Prebisch, proposed solutions likely to be acceptable to most of the producer and consumer countries; these concerned the principal problems raised by the draft agreement to be submitted to the Conference, that is, the machinery to be established, the financing of operations relating to cocoa stocks, and the fixing of the level and range of prices.

In the opinion of the UNCTAD Secretary-General, the fundamental aims of any agreement on cocoa must be to neutralize fluctuations in supply in such a way as to reduce temporary price variations, and to stimulate consumption. The various stabilization methods envisaged must be combined in such a way as to attain these objectives; the main task is to lay down a price range, constitute a buffer stock, introduce sales quotas, and find new uses for residual surpluses. The buffer stock must be financed by regular contributions from producers and consumers, but pre-financing will have to be by loans provided by governments and international bodies.

Agreement was reached on the need for a fairly wide price range (a divergence of 10 cents/lb was considered desirable). As to the floor and ceiling prices, it should be possible to negotiate generally acceptable rates, since the success of the negotiations will obviously depend on mutual concessions, particularly by the producer or consumer countries which have very different ideas as to what the price level should be.

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In this connection, it will be remembered that the failure of the 1963 Conference was largely due to differences of opinion between the producer and consumer countries as regards the minimum price level.

All the delegations considered that a system of annual sales quotas must be combined with the operation of a buffer stock, but no consensus was reached on how the two systems should interact or on the detailed provisions to be included in an agreement.

The Working Party considered that surpluses in excess of the limit fixed for the buffer stock, for which figures from 150 000 to 300 000 tons were mentioned, should be put to non-traditional uses, at prices likely to prove attractive to those who utilize oils and fats.

The problem of strict control of the sale, dispatch and processing of this cocoa is of great importance, and guarantees will have to be obtained.

As regards financing, it was recognized that the Cocoa Council must have a regular income to cover the operating costs of the buffer stock and to allow capital to be built up progressively, and that loans must be obtained to enable the buffer stock to start functioning as soon as the agreement enters into force. Most of the delegations accepted the principle of parity as regards contributions from the producer countries (in cash or kind), on the one hand, and from the consumer countries (in kind), on the other, these contributions to be proportional to the volume of each country's trade in cocoa. The payments system will have to be so devised as to cover as much of the trade in cocoa as possible and not to place non-member countries at an advantage. No agreement was reached on how the producer and consumer countries

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through countries that are not parties to the agreement (Netherlands Antilles, Singapore, Middle East, Liberia, etc.) where they acquire a new identity before being sent on to the traditional markets (mainly the USA); there, in spite of these extra overheads, they can still be offered at prices lower than quota coffees coming legally from countries that have signed the agreement.

These practices have disturbed the market, particularly for robustas, which constitute the major part of these "illegal" coffees, but the world market was also depressed by other factors during the first few months of the year. The International Coffee Organization (ICO) is finding it very difficult to reconcile the opinions of producer countries so as to adjust the basic quotas and fix production objectives. Moreover, the increase in consumption slowed down in several countries in 1965, especially in the United States, where imports were only 1 280 000 tons (1 373 000 tons in 1964) and where the figures for roasting are the lowest recorded since 1959 (1 302 000 tons). Even in the EEC, where there had been remarkable progress in the last few years, imports went up by only 1.5% in 1965 compared with 1964 (763 000 tons and 752 000 tons respectively). In this connection, certain observers consider that publicity in the ICO framework is clearly insufficient, and that the delay in implementing programmes is proving harmful. Lastly, the most recent production estimates for 1965/66 suggest that there will be fresh surpluses to swell the present world stocks (about 3 500 000 tons), a large part of which are certainly not exportable but nevertheless depress the market. The exportable crop should in fact reach 3 800 000 tons in 1965/66 (compared with 2 230 000 tons in 1964/64 when the figure was exceptionally low owing to the very poor crop in Brazil) whereas export quotas amount to 2 700 000 tons for 1965/66 and exports

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to the new markets represent no more than 100 000 to 150 000 tons.

All these factors have produced a certain mood of pessimism with regard to the future. It is to be hoped that the forthcoming meetings of the ICO will be able to dispel this impression, as the international agreement is still the only guarantee of a stable market; even apart from the permanent supply surplus, one can imagine the shocks the market would have had to contend with had the agreement not existed in 1964/65 and the present marketing year, with exportable production rising from 2 200 000 to 3 800 000 tons in a twelvemonth.

Prices

The following table shows the target prices in force under the international agreement since the beginning of the 1965/66 marketing year (monthly averages).

(in cts/lb to nearest 1/10 ct)		Arabicas (mild)	Arabicas (unwashed)	Robustas	Average price
1965	October	47.1	42.7	36.6	42.1
	November	48.1	42.6	34.5	41.7
	December	48.1	42.8	35.9	42.3
1966	January	47.5	42.6	36.4	42.1
	February	46.9	41.5	34.4	40.9
	March	46.0	40.7	33.7	40.1
	April	45.8	40.6	34.5	40.3

It will be noted that the trend is different for each of the three groups.

The price of mild arabicas went up slightly, but has since fallen by about 2 cents/lb since the beginning of 1966. Unwashed arabicas (mainly Brazil) reflect the policy of lower registered export prices pursued by Brazil in February and March 1966. The increases in quotas, which had exceptionally been granted by the

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International Coffee Council in December 1965, were not maintained for the last two quarters of the coffee year in the case of these two groups, in view of the fall in their prices.

The behaviour of robustas was rather disconcerting for the reasons already mentioned: their prices fell in November, recovered during the next two months, fell again more sharply in February-March, and then went up again in April.

The trend in the average price was mainly influenced by the showing of robustas at the end of 1965, then by the fall in the prices of the three types at the beginning of 1966, the average price having dropped by 2 cents/lb in two months, from January to March.

In the year following the establishment of this target price system (i.e. from March 1965), the average price rose steadily during the spring and summer of 1965, from about 38 cents/lb to over 42 cents in August. In the last few months of the year it remained at about this level, and then it fell steadily during the first quarter of 1966 to 40 cents in March.

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OILSEEDS

Trend of world prices (in £ sterling per long ton, cif European port)

	Average 1953/57	Average 1958/62	1963	1964	1965	30/4/1966
A. Oilseeds						
Soyabeans (US)	40	36	40	40	42	45.7
Index	100	90	100	100	105	113
Groundnuts (Nigeria)	76	66	62	68	75	66.17
Index	100	87	82	89	99	88
Copra (Philippines)	69	72	65	72	84	68
Index	100	104	94	104	122	99
Palm kernels (Nigeria)	54	57	54	55	65	55.2
Index	100	106	100	102	120	102
B. Oils						
Soyabean (US) (1)	123	90	83	(83)87	(93)	(97.10
Index	100	73	67	71	79	83
Groundnut (Nigeria)	129	116	99	114	127	105
Index	100	90	76	88	98	81
Palm (Nigeria)	85	82	80	85	98	82
Index	100	96	94	100	115	96
Copra (Ceylon)	104	110	95	108	126	118
Index	100	106	91	113	121	113

(1) The figures in brackets are quotations "ex tank Rotterdam".

On the whole, the fall in world oilseed prices which had begun in the second part of 1965 continued during the first few months of 1966; in this respect, despite the record crop in the USA, soya was an exception, because of the steady development of the market for feeding cake and the large requirements, particularly non-commercial demand from certain countries, mainly in Asia.

In the general downward trend, the most marked fall is shown by groundnuts and, particularly, groundnut oils, the prices for which are at best the same as the 1958/62 average, whereas the prices of hard oils, particularly those containing lauric acid, appear to be better supported by more specific demand.

Opinions are divided on the future of the market. However, certain observers expect prices to fall further in the fluid oil sector when quantities of African groundnuts that had still not been sold by the beginning of the summer are brought onto the market; there is also the question as to whether the increased area beginning to be put under soya and colza in the industrialized countries of the northern hemisphere may not produce a large surplus if the production situation should become more normal in Asia.

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BANANAS

In the international field, the beginning of 1966 saw the first meeting of the FAO Banana Study Group, which was set up by the Products Committee on the recommendation of the ad hoc banana meeting held in Ecuador in October 1964. The Group met in Rome from 28 March to 1 April 1966.

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The most important point on the agenda concerned the market situation and outlook: market trends since 1964, the problem of access to markets in the importing countries, and production programmes and policies in the producer countries.

With regard to market trends since 1964, both the producer and the consumer countries mentioned the strong increase in consumption in 1965. World imports actually rose by 10% compared with 1964, a larger increase than at any time in the last few years. This development is partly attributed to new methods of packing (cut hands of bananas in packing-cases or cardboard boxes).

The problem of access to markets in the importing countries was the subject of an interesting discussion in the Study Group, centred on the question as to whether free or "managed" markets are more favourable to producers.

With regard to production programmes and policies, it should be noted that there has been some slowing down in the expansion recorded in the last few years. Almost all the producer countries have pointed out that any future increase in their output would be due to productivity advances rather than to an increase in the area planted.

The long-term consumption forecasts worked out by the FAO were of particular interest to the producer countries. The prospects are generally thought to be fairly good, although a growing number of consumer countries are approaching saturation, so that consumption

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will rise at a less spectacular rate than in the last few years. Taking into account the uncertainty inherent in such projections, the overall situation would seem to suggest that the banana market will experience relatively stable expansion.

The other problems studied concern statistics (a statistical sub-group was set up), the possible establishment of international quality standards, and new packing techniques.

As regards its future work, the Group will have to study, in particular, prospects for consumption and the problem of price formation, taking all the relevant factors into account (quality and presentation of the product - sales promotion - access to markets - methods of distribution - marketing channels, etc.).

The results of this first meeting of the Banana Study Group are generally considered to hold out good prospects for future relations between the countries that produce and the countries that consume this important tropical product.

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COTTON

The development of the world market in 1965 was mainly influenced by the adoption of new American legislation on cotton,

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the main features of which were described in our previous number[1].

Prices on the international market, which had proved very stable in 1964 although then already regarded as low by the producer countries, began to slide in the second half of 1965. Thus the price of cotton of the American reference quality (one-inch middling), which had been about 23 pence/lb on the Liverpool exchange during 1964 and in the first half of 1965, fell from July onwards and was down to the low level of 22.20 pence/lb by the end of the year. The consequences of this fall can be measured only in the light of the difficulties already facing producer countries in the developing regions, where prime costs are now at the profitability threshold, if not below it.

During the second half of 1965, the market was affected by the attitude of utilizers, who tended to hold back purchases pending the general fall in prices expected to occur as a result of the new United States legislation, which will take effect from the 1966/67 marketing year. On the other hand certain exporting countries were eager to dispose of their output, and this weighed on the market.

There were no great changes in the market situation during the first few months of 1966. The average price for the first sales of American government stocks held by the Commodity Credit Corporation (delivery on 1 August 1966) introduced an element of confidence into the market, and prices on the Liverpool exchange steadied at 22.20 pence/lb for one-inch middling; there do not appear to be any more of the precipitate reactions from certain quarters that are so detrimental to the market.

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(1) "Developing countries: products and trade", No. 4, January 1966.

In the longer term, the cotton market remains marked by a surplus of production over potential demand, which would seem to exclude any prospect of appreciable price increases. In the 1965/66 marketing year, production reached a new record level of 52.4 million bales (provisional figures), whereas consumption for the same period might be about 50.9 million bales (estimate). This would leave a fresh carry-over of 1 500 000 bales at 1 August 1966, which would go to swell the already considerable world stocks, amounting to 27.9 million bales, at 1 August 1965. At the present rate of consumption, these represent about 7 months' world supply. This situation is, of course, causing anxiety to the parties concerned and is being carefully studied by the International Cotton Advisory Committee (ICAC).

In order to encourage the expansion of international trade in raw cotton, practical action has recently been taken under the auspices of the ICAC. With the co-operation of six producer States (India, Mexico, Spain, Sudan, UAR, USA), an independent body has been set up at governmental level in the form of an association known as the International Cotton Institute; its aim is to launch an international programme of research and sales promotion for cotton in the main consumption centres of the world.

This programme will first be applied in Western Europe and in Japan, where the competition from synthetic fibres is strongest and where any increase in cotton consumption could ultimately lead to an improvement of the general cotton situaion.

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VANILLA

The world market situation

During the last few years there have been developments worthy of mention on the world vanilla market.

1/ Trade flows

About 1 000 tons of vanilla are currently marketed in the world, over 70% of which comes from three countries in the Indian Ocean: Madagascar, the Comoro Islands and Reunion. The vanilla marketed under the name of "Bourbon vanilla", which is well known for its unique perfume, moreover comes from this region.

World market trends in vanilla (tons)

Average 1955-61	1960	1961	1962	1963	1964
799.4	694.5	1072.6	1022.8	836.7	1045.7

Principal exporting countries (1964)

Madagascar	627.0
French Polynesia	217.4
Mexico	15.9
Comoro Islands	106.5
Reunion	34.0
Indonesia	38.5
Seychelles	1.4
Dominican Republic	0.9
Gaudeloupe	1.8
Uganda	2.3
Total	1045.7

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Madagascar is by far the most important vanilla exporting country, for in normal years it accounts for between 50% and 60% of world trade. In 1963 Madagascar's exports fell drastically to no more than 35% of world trade for that year; the reasons for this are examined below.

The second world exporter is French Polynesia in the Pacific Ocean (the Islands of Tahiti, Moorea, Tahaa, Raiatea, Huahine and Bora-Bora) which accounts for between 20% and 26% of world trade, depending on the year; the other exporters are of little importance: Indonesia, Mexico, Uganda, Kenya, Gaudeloupe, the Seychelles and Dominica.

On the import side, one country, the USA, absorbs over 70% of the total tonnage marketed in the world, followed at a considerable distance by the EEC countries, which normally account for some 20% of world imports.

Trend of US imports (tons)

Average 1955-59	1962	1963	1964	1965
533.6	715.1	482.4	737.9	977.6

Principal countries of origin

	1964	1965
Madagascar	618.8	788.7
Indonesia	38.5	59.3
French Polynesia	18.5	9.1
Mexico	10.8	-
Reunion	8.6	27.2
Other	42.7	93.3
Total	737.9	977.6

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The United States market is mainly supplied by producer countries in the franc area (87% of the total in 1965), particularly Madagascar, while other traditional suppliers, such as Mexico, are tending to withdraw from the market.

Trend of EEC imports (tons)

1962	1963	1964	1965
214	252	219	258

Principal countries of origin (1965)

	EEC	France	Germany	Nether-lands	BLEU	Italy
Madagascar	112.3	60	49	-	1	2.3
Comoro Islands	10	10	(20	-	-	-
Reunion	36.1	16	(	-	-	0.1
Fr. Polynesia	78	74	4	-	-	-
Total	258.4	160	76	10	6	6.4

Almost all the EEC's imports come from the associated countries (AASM and associated overseas countries and territories) and from one French overseas department (Reunion); in 1965 Madagascar supplied 43% of the total imported by the EEC, followed by French Polynesia (30%), the Island of Reunion (13%) and the Comoro Islands (4%).

2/ Consumption of vanilla and competition from substitution products

On the whole, world consumption of natural vanilla has tended to stagnate since the war, at a ceiling of about 1 000 tons, in spite of the spectacular increase in the consumption of products containing vanilla. In the United States, for example, the production of ice cream rose by 500% from 1920 to 1961, but the

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proportion of natural vanilla utilized in the manufacture of these ices has tended to diminish not only relatively but also in absolute terms, in favour of industrial substitutes such as vanillin(1) and ethyl-vanillin.

The extent of competition from alternative products is shown by the fact that in the United States and Canada the output of vanillin went up by almost 700% from 1933 to 1963. It is difficult to give a precise figure for world production of artificial substitutes, but according to reliable sources it might be 1 700 tons for vanillin and 350 tons for ethyl-vanillin. Taking a coefficient of equivalence, in relation to the natural product, of 16 for vanillin and 44 for ethyl-vanillin, this would correspond to 42 600 tons of natural vanilla.

In fact, natural vanilla seems to have almost completely lost its place in the industrial consumption sector (food industries etc.), although the rate at which industrial consumption is rising would seem to offer the best prospects for vanilla in the future; on the other hand, it has been able to hold its own in household consumption. In the United States, which nevertheless remains the chief importer of the natural product, there is a tendency to consume vanilla in the form of extract, whereas the European consumer continues to demand the traditionally treated product in the form of pods (especially in Germany and Denmark) or vanilla sugar (in France particularly).

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(1) Industrial vanillin is manufactured by a number of processes from various raw materials. The process that uses waste products resulting from the manufacture of cellulose would seem to be the most interesting technically.

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3/ Price trends and stabilization policy

The progress made by vanilla substitutes is partly due to the extreme instability of prices which was a feature of the vanilla market in the past. The price of Bourbon vanilla, for example, varied from US $ 1.95/kg in 1930 to $ 13 in 1956 and $ 30 in August 1959.

These excessive fluctuations, which were also a feature of the markets for other spices, were due to intense speculation in the trade, encouraged by irregular harvests.

On the other hand, artificial products which were technically simple to use and relatively stable as regards their efficiency could be manufactured at constant prices. (In the United States the price of vanillin has remained at about $ 6/kg for 30 years.)

Since the first victims of market instability are the producer countries themselves, it is understandable that Madagascar, the principal producer, should have created a Fund to stabilize the price of vanilla, by the decree of August 1957; the main aim was to guarantee producers a remunerative price and help to regularize the world market in vanilla.

In the initial phase, the Fund intervened through a system of auctions. The aim was to ensure as high a selling price as possible and export licences were granted only to the agents who had made the highest bids.

From 1960, on the other hand, a system of purely and simply fixing minimum export prices was adopted.

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The floor price for the 1961 crop was fixed at US ≸ 13/kg fob. The financial success of the Stabilization Fund for that marketing year may have influenced the Malagasy authorities' decision to raise the floor price for the 1962 crop to US ≸ 15/kg fob. This led to the "vanilla crisis" of 1963 and to the disastrous fall in Madagascar's exports from 639 tons in 1962 to 292 tons in 1963, because many importers, particularly in America, had refused to buy at a price they considered exorbitant.

A conference was therefore held at Saint-Denis, Reunion, in February 1964, at which representatives of the three neighbouring Indian Ocean countries (Madagascar, Comoro Islands and Reunion) decided to harmonize their commercial policies regarding vanilla (price fixing, quotas, etc.). The Saint-Denis agreements were followed in the same year by the first conference to be attended by all the producer countries in the Indian Ocean and by delegates representing the interests of importers and utilizers; this was held at Tananarive in Madagascar.

In spite of the threat from Madagascar to destroy its large stocks (almost one year's world consumption) which hung over the conference and could have been a spectacular way of making consumer countries aware of the difficulties in marketing natural vanilla, agreement was reached on a floor selling price of US ≸ 10.20/kg for exports fob from Madagascar and prices only slightly different for Reunion and the Comoro Islands. It was thought that these prices would still be remunerative for producers and would be likely to encourage consumption in the importing countries. In addition, commitments to buy were obtained from American importers, who undertook to promote sales of the natural product in the USA.

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4/ Prospects for the vanilla market

The prospects for the vanilla market are closely bound up with the introduction of adequate legislation in the consumer countries to protect the name of the natural product in the face of the overwhelming competition from artificial substitutes. Thus the new US regulations, which remained before the competent committees for over 20 years before being finally introduced by the Food and Drug Administration in 1964, are of prime importance for the future of natural vanilla, because they lay down that the nature of the flavouring used in ice creams must be specified on the label.

With this new legislation, it should be possible considerably to expand consumption in the USA, which is the largest outlet for the product; but consumers in America (as also in the other utilizer countries) would have to be educated to appreciate the taste of real vanilla and to demand products flavoured with the natural product. This is unfortunately difficult to achieve, and would require a fairly costly propaganda campaign; in fact most consumers now find it difficult to distinguish the taste of real vanilla from that of its artificial substitutes. In view of the low cost and strong flavouring qualities of the latter, natural vanilla cannot compete unless ad hoc arrangements are made to protect the name "vanilla".

The United States legislation providing for unambiguous labelling should therefore help to make consumers aware of the choice. It appears that the new regulations have already had an effect, for US imports of vanilla went up from 737 tons in 1964 to 977 tons in 1965. It is also essential that the principal

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producer countries should try to achieve price discipline and adequate output. The United States' example could be followed by European countries, which are great potential consumers of vanilla, particularly the EEC Member States, which are linked to the principal producer countries by the Yaoundé Convention and are at present looking for ways of increasing the consumption of products originating in the AASM. At the end of May 1966, France adopted regulations protecting the natural product.

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